

# **Metropolitan Library System**

## *Financial Statements*

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)



# METROPOLITAN LIBRARY SYSTEM

## FINANCIAL STATEMENTS

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**METROPOLITAN LIBRARY SYSTEM**

**FINANCIAL STATEMENTS**

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## **INDEPENDENT AUDITORS' REPORT**

To the Commissioners  
Metropolitan Library System

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Library System (the "Library") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(Continued)

## **INDEPENDENT AUDITORS' REPORT, CONTINUED**

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Library as of June 30, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2013 the Library adopted new accounting guidance, Statement No. 63 of the Governmental Accounting Standards Board, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-7 and the schedule of funding progress and the schedule of contributions from the employer for the defined benefit pension plan and the budgetary comparison information on pages 49 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

**INDEPENDENT AUDITORS' REPORT, CONTINUED**

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013, on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Finley & Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma  
October 8, 2013

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

This discussion and analysis of the financial performance of the Metropolitan Library System (the “Library”) provides an overall review of the Library’s financial condition and results of operations for the fiscal years ended June 30, 2013 and 2012. Readers should read this information in conjunction with the Library’s financial statements.

### **FINANCIAL HIGHLIGHTS**

For the year ended June 30, 2013, the Library’s General Fund reported an ending balance of \$30,237,969, versus \$32,837,004 for the year ended June 30, 2012. The comparison reflects a decrease of \$2,599,035, or 7.9%, of the June 30, 2012, General Fund ending fund balance. Of the June 30, 2013 and 2012, year-end totals, \$14,021,912 and \$13,423,430, respectively, was unassigned, indicating that none had been restricted, committed, or assigned to specific purposes within the General Fund. For the year ended June 30, 2013, \$16,128,950 of the balance was assigned, with \$7,438,236 assigned to Library capital improvement projects and \$8,690,714 assigned to cash flow requirements. For the year ended June 30, 2012, \$19,333,641 of the balance was assigned, with \$10,773,641 assigned to Library capital improvement projects and \$8,560,000 assigned to cash flow requirements. Nonspendable totals for the years ended June 30, 2013 and 2012, were \$87,107 and \$79,933, respectively.

Over the years, the Library administration, with the Library Commission’s approval, has prudently used or committed the money from the assigned fund balances to alleviate summer cash flow problems and provide funds for capital improvement projects. The Library does not have legal authority to raise tax dollars for capital improvement projects through bond issues as most other local government entities do. Therefore, the money in the assigned fund balances provides opportunities for the Library to improve and maintain its facilities.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts—management’s discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Library:

The first statements are *government-wide financial statements* that provide information about the Library’s overall financial status.

The remaining statements are *fund financial statements* that focus on individual parts of the Library, reporting the Library’s operations in more detail than the Library-wide statements. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Library’s budget for the year.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED**

### **OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED**

The Library has three kinds of funds—governmental funds, proprietary funds, and fiduciary funds.

Governmental funds encompass two funds: the General Fund and the Gifts and Grants Fund.

*General Fund:* Represents unrestricted resources that are available for ongoing general library operations. This is the Library’s primary operating fund. It includes income from special services, such as copy services, lost book fees, overdue book fines, and other miscellaneous services.

*Gifts and Grants Fund:* Includes all gifts and grants. Gifts and grants include funds provided by intergovernmental grants and other third parties’ gifts and grants. All of these funds are generally restricted as to use. Therefore, each fund accounts for its receipts and disbursements of the restricted functions.

The proprietary fund is the Library’s insurance fund, an internal service fund. The insurance fund is used to maintain the Library’s health and dental self-insurance plan.

Fiduciary funds are reported in the fiduciary fund financial statements but are excluded from government-wide reporting. They include the Pension Fund, the Flex Benefit Fund, and the Defined Contribution Fund. Fiduciary fund financial statements report assets that cannot be used to fund the Library’s general operations.

### **Notes to the Financial Statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the Library’s financial statements.

### **Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information, such as a comparative statement between budgeted and actual resources and appropriations, and the schedule of funding progress for the defined benefit pension plan.

**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

**THE LIBRARY SYSTEM AS A WHOLE**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<i>Statements of Net Position</i>			
Assets:			
Current	\$ 33,672,343	36,106,444	37,287,957
Capital assets	<u>16,067,960</u>	<u>15,364,470</u>	<u>14,425,010</u>
Total assets	<u>49,740,303</u>	<u>51,470,914</u>	<u>51,712,967</u>
Liabilities:			
Accounts payable and accrued expenses	1,115,945	1,019,329	678,995
Compensated absences payable	<u>268,561</u>	<u>294,266</u>	<u>274,149</u>
Total liabilities	<u>1,384,506</u>	<u>1,313,595</u>	<u>953,144</u>
Net position:			
Net investment in capital assets	16,067,960	15,364,470	14,425,010
Restricted	78,218	98,484	214,506
Unrestricted	<u>32,209,619</u>	<u>34,694,365</u>	<u>36,120,307</u>
Total net position	<u>\$ 48,355,797</u>	<u>50,157,319</u>	<u>50,759,823</u>
<i>Changes in Net Position</i>			
Beginning net position	\$ <u>50,157,319</u>	<u>50,759,823</u>	<u>49,171,814</u>
Revenues:			
Property taxes	30,354,504	29,695,771	28,216,587
State aid	287,392	286,073	354,928
Charges for services	1,824,080	1,803,804	1,779,508
Operating grants and contributions	265,088	233,771	323,069
Loss from disposals	(1,105,783)	(1,026,069)	(855,954)
Investment (losses) earnings	<u>(407,625)</u>	<u>423,159</u>	<u>494,174</u>
Total revenues	<u>31,217,656</u>	<u>31,416,509</u>	<u>30,312,312</u>
Expenses:			
Public library services	18,684,302	17,388,064	14,749,882
Administrative services	10,785,270	11,396,894	10,788,852
Depreciation—unallocated	<u>3,549,606</u>	<u>3,234,055</u>	<u>3,185,569</u>
Total expenses	<u>33,019,178</u>	<u>32,019,013</u>	<u>28,724,303</u>
Ending net position	<u>\$ 48,355,797</u>	<u>50,157,319</u>	<u>50,759,823</u>

**MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED**

**FINANCIAL ANALYSIS OF THE LIBRARY’S FUNDS**

As financial information is accumulated on a continuous and consistent basis, financial statements and expenditure reports for governmental funds are presented to the Library Commission each month for its acknowledgement.

For the years ended June 30, governmental fund balances changed as follows:

		General	Gifts and Grants	Total
	<u>2013</u>	<u>Fund</u>	<u>Fund</u>	<u>Governmental</u>
				<u>Funds</u>
Revenues		\$ 31,703,873	265,088	31,968,961
Expenditures		<u>(34,302,908)</u>	<u>(285,354)</u>	<u>(34,588,262)</u>
Net decrease		<u>\$ (2,599,035)</u>	<u>(20,266)</u>	<u>(2,619,301)</u>
		General	Gifts and Grants	Total
	<u>2012</u>	<u>Fund</u>	<u>Fund</u>	<u>Governmental</u>
				<u>Funds</u>
Revenues		\$ 32,039,522	233,771	32,273,293
Expenditures		<u>(32,884,941)</u>	<u>(349,793)</u>	<u>(33,234,734)</u>
Net decrease		<u>\$ (845,419)</u>	<u>(116,022)</u>	<u>(961,441)</u>
		General	Gifts and Grants	Total
	<u>2011</u>	<u>Fund</u>	<u>Fund</u>	<u>Governmental</u>
				<u>Funds</u>
Revenues		\$ 31,548,787	323,069	31,871,856
Expenditures		<u>(28,816,538)</u>	<u>(246,929)</u>	<u>(29,063,467)</u>
Net increase		<u>\$ 2,732,249</u>	<u>76,140</u>	<u>2,808,389</u>

**General Fund:**

The Library is primarily funded by a 5.2 mill ad valorem (property) tax. For the year ended June 30, 2013, the County’s assessed property value had an increase of 2.3% versus 1.9% for the year ended June 30, 2012. Actual tax collections increased 0.7% for the year ended June 30, 2013, over the year ended June 30, 2012, as compared to a 3.7% increase in the year ended June 30, 2012, over the previous year. Investment income for the Library decreased to \$(407,625) in the year ended June 30, 2013, from \$423,159 in the year ended June 30, 2012. The decrease was due to a significant lowering of the fair market value of the Library’s holdings of government-backed securities.

**MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED**

**FINANCIAL ANALYSIS OF THE LIBRARY’S FUNDS, CONTINUED**

**General Fund, Continued:**

Major expenditure categories increased in 2013 from 2012, showing an overall increase of \$1,417,967, or 4.3%. Within categories, personal services increased 8.6%, above the previous year’s increase of 9.1%. Maintenance and operations expenses increased, totaling a 3.7% change. Capital outlays decreased 6.0%. All of the increases in expenses were because of a significant increase in services, including the opening of the new Almonte Library and normal price increases.

**Gifts and Grants Fund:**

During the years ended June 30, 2013 and 2012, \$265,088 and \$233,771, respectively, of gifts and grants funds were received. For the year ended June 30, 2013, the largest contributors were The Friends of the Library, which gave 12 grants totaling \$196,000, and the Library Endowment Trust, which gave 3 grants totaling \$26,315. For the year ended June 30, 2012, the largest contributor to the Library was the Friends of the Metropolitan Library System (the “Friends”), which gave 16 grants for various Library activities with a total amount of \$152,742. Other major grantors for the fiscal year ended June 30, 2013, included the Sonic Corporation (\$20,000) and the Oklahoma Arts Council (\$16,844).

**Proprietary Fund:**

	<u>Insurance Fund</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues	\$ 2,617,647	2,697,351	2,043,247
Expenses	<u>(2,178,075)</u>	<u>(2,467,216)</u>	<u>(1,874,831)</u>
Net increase	<u>\$ 439,572</u>	<u>230,135</u>	<u>168,416</u>

The total insurance premium contributed by both the employer and the employees to this fund was \$2,304,480 in the year ended June 30, 2013, versus \$2,282,459 and \$1,893,888 in the years ended June 30, 2012 and 2011, respectively. Claims expense for 2013 was \$2,178,075 compared to \$2,467,216 and \$1,874,831 for 2012 and 2011, respectively.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The General Fund budget for the year ended June 30, 2013, was \$58,706,351, a decrease of \$547,272, or 0.9%, over the June 30, 2012, budget of \$59,253,623. The biggest contributor to the decrease in the year ended June 30, 2013, budget over the previous year was a decrease in the capital reserve, which decreased \$3,204,691 due to those reserve monies being moved to the June 30, 2013, expenditures budget for anticipated capital expenditures.

**MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED**

**GENERAL FUND BUDGETARY HIGHLIGHTS, CONTINUED**

Actual results compared to budgeted results were as follows:

	<u>2013</u>	
<u>Revenues</u>	<u>Budgeted</u>	<u>Actual on a Budgeted Basis</u>
Revenues	\$ 28,491,844	32,781,841
Expenditures	\$ 42,577,401	34,084,125

  

	<u>2012</u>	
<u>Revenues</u>	<u>Budgeted</u>	<u>Actual on a Budgeted Basis</u>
Revenues	\$ 28,028,102	31,957,876
Expenditures	\$ 39,919,982	33,067,552

  

	<u>2011</u>	
<u>Revenues</u>	<u>Budgeted</u>	<u>Actual on a Budgeted Basis</u>
Revenues	\$ 27,384,442	31,333,583
Expenditures	\$ 38,554,828	30,741,082

**CAPITAL ASSETS AND LONG-TERM DEBT**

The Library’s investment in depreciable capital assets, net of accumulated depreciation, at June 30, 2013, was \$15,752,389, and at June 30, 2012, was \$15,048,899. Of the total depreciable capital assets at June 30, 2013, 50% consisted of furniture, equipment, vehicles, and buildings, while the remaining 50% consisted of books and materials. The previous year, those percentages were 52% and 48%, respectively. Nondepreciable assets at June 30, 2013 and 2012, represented land owned by the Library in the amount of \$315,571.

The Library has no long-term debt.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED**

### **ECONOMIC ENVIRONMENT AND NEXT YEAR'S BUDGET**

The Library's primary revenue is ad valorem (property) tax. Barring a voter-approved change in the mill levy, the annual growth in the Oklahoma County's property values is the most important factor in the Library's revenue outlook. Currently, the Library collects 5.2 mills of the assessed property values. With voters' approval, the number of mills could increase to 6.21 mills.

In 1996, state voters approved State Question 676. This state question, with certain exceptions, put a 5% limitation on the growth of real estate value each year. That has impacted the annual growth of the Library's tax revenue. In November of 2012, the state voters passed two state questions that have a negative impact on the amount of taxes the Library receives. The first question lowers the cap on the tax increases from 5% to 3%, and the second question eliminates the tax on intangible assets.

In general, the Library expects a small growth in the tax revenue for the next year. The County Assessor has certified a 2.3% growth in property values for fiscal year ended June 30, 2014, as opposed to 1.91% in the year ended June 30, 2013. Investment income is expected to be neutral. Real estate prices are rising as new construction and population growth continue, so the Library expects continued incremental growth in revenue for the foreseeable future.

For the year ended June 30, 2014, the Board of Commissioners has approved a General Fund budget of \$58,176,882, versus \$58,706,351 for the year ended June 30, 2013. Of the total budget for the year ended June 30, 2014, \$36,956,460 was for operating costs, \$6,290,024 was for capital projects, and \$14,930,398 was for other assigned funds. Of the total budget amount for the year ended June 30, 2013, \$36,748,768 was for operating costs, \$5,828,633 was for capital projects, and \$16,128,950 was for other assigned funds.

### **CONTACTING THE LIBRARY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Metropolitan Library System, comply with finance-related laws and regulations, and demonstrate the Library's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the Library's Business Office at 300 Park Avenue, Oklahoma City, OK 73102.

# METROPOLITAN LIBRARY SYSTEM

## STATEMENTS OF NET POSITION

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
	<u>Governmental Activities</u>	
<b>Assets</b>		
Current assets:		
Cash	\$ 8,826,222	15,166,562
Investments	23,453,652	19,155,252
Ad valorem taxes receivable, net of allowance for uncollectible taxes of \$61,436 and \$128,856 as of June 30, 2013 and 2012, respectively	1,207,006	1,516,301
Accounts receivable	35,572	120,921
Accrued interest receivable	62,784	67,475
Prepaid expenses	87,107	79,933
Total current assets	<u>33,672,343</u>	<u>36,106,444</u>
Noncurrent assets:		
Nondepreciable capital assets	315,571	315,571
Depreciable capital assets, net	15,752,389	15,048,899
Total noncurrent assets	<u>16,067,960</u>	<u>15,364,470</u>
Total assets	<u>49,740,303</u>	<u>51,470,914</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	1,115,945	1,019,329
Compensated absences payable	268,561	294,266
Total current liabilities	<u>1,384,506</u>	<u>1,313,595</u>
Total liabilities	<u>1,384,506</u>	<u>1,313,595</u>
<b>Net Position</b>		
Net investment in capital assets	16,067,960	15,364,470
Restricted	78,218	98,484
Unrestricted	32,209,619	34,694,365
Total net position	<u>\$ 48,355,797</u>	<u>50,157,319</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENTS OF ACTIVITIES**

*Year Ended June 30, 2013*

	<u>REVENUES</u>			Net (Expenses)
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenues/ Changes in Net Assets</u>
Government activities:				
Public library services	\$ (18,684,302)	747,417	265,088	-
Administrative services	(10,785,270)	1,076,663	-	-
Depreciation—unallocated	(3,549,606)	-	-	-
	<u>\$ (33,019,178)</u>	<u>1,824,080</u>	<u>265,088</u>	<u>-</u>
General revenues:				
Property taxes, levied for general purposes				30,354,504
State aid				287,392
Loss from disposals				(1,105,783)
Investment losses				(407,625)
Total general revenues				<u>29,128,488</u>
Changes in net position				(1,801,522)
Net position, beginning of year				<u>50,157,319</u>
Net position, end of year				<u>\$ 48,355,797</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENTS OF ACTIVITIES, CONTINUED**

*Year Ended June 30, 2012*

	<u>Expenses</u>	<u>REVENUES</u>			Net (Expenses) Revenues/ Changes in Net Assets
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Government activities:					
Public library services	\$ (17,388,064)	704,587	233,771	-	(16,449,706)
Administrative services	(11,396,894)	1,099,217	-	-	(10,297,677)
Depreciation—unallocated	(3,234,055)	-	-	-	(3,234,055)
	<u>\$ (32,019,013)</u>	<u>1,803,804</u>	<u>233,771</u>	<u>-</u>	<u>(29,981,438)</u>
General revenues:					
Property taxes, levied for general purposes					29,695,771
State aid					286,073
Loss from disposals					(1,026,069)
Investment earnings					423,159
Total general revenues					<u>29,378,934</u>
Changes in net position					(602,504)
Net position, beginning of year					<u>50,759,823</u>
Net position, end of year					<u>\$ 50,157,319</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**BALANCE SHEETS—GOVERNMENTAL FUNDS**

*June 30, 2013*

	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash	\$ 6,976,832	78,218	7,055,050
Investments	23,453,652	-	23,453,652
Ad valorem taxes receivable, net of allowance	1,207,006	-	1,207,006
Accrued interest receivable	62,784	-	62,784
Prepaid expenses	87,107	-	87,107
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 31,787,381</u>	<u>78,218</u>	<u>31,865,599</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 656,002	-	656,002
Accrued salaries	342,281	-	342,281
Deferred revenue	551,129	-	551,129
Total liabilities	<u>1,549,412</u>	<u>-</u>	<u>1,549,412</u>
Fund balances:			
Nonspendable	87,107	-	87,107
Restricted	-	78,218	78,218
Assigned	16,128,950	-	16,128,950
Unassigned	14,021,912	-	14,021,912
Total fund balances	<u>30,237,969</u>	<u>78,218</u>	<u>30,316,187</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 31,787,381</u>	<u>78,218</u>	<u>31,865,599</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**BALANCE SHEETS—GOVERNMENTAL FUNDS, CONTINUED**

*June 30, 2012*

	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Cash	\$ 13,836,612	98,484	13,935,096
Investments	19,155,252	-	19,155,252
Ad valorem taxes receivable, net of allowance	1,516,301	-	1,516,301
Accrued interest receivable	67,475	-	67,475
Prepaid expenses	79,933	-	79,933
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 34,655,573</u>	<u>98,484</u>	<u>34,754,057</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 644,755	-	644,755
Accrued salaries	271,697	-	271,697
Deferred revenue	902,117	-	902,117
Total liabilities	<u>1,818,569</u>	<u>-</u>	<u>1,818,569</u>
Fund balances:			
Nonspendable	79,933	-	79,933
Restricted	-	98,484	98,484
Assigned	19,333,641	-	19,333,641
Unassigned	13,423,430	-	13,423,430
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>32,837,004</u>	<u>98,484</u>	<u>32,935,488</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 34,655,573</u>	<u>98,484</u>	<u>34,754,057</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**RECONCILIATIONS OF THE BALANCE SHEETS—GOVERNMENTAL FUNDS  
TO THE STATEMENTS OF NET POSITION**

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
<b>Reconciliation of Fund Balances to Net Position</b>		
Total fund balances—governmental funds	\$ 30,316,187	32,935,488
Amounts reported for governmental activities in the statements of net assets are different because:		
Certain assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Capital assets, net of accumulated depreciation	16,067,960	15,364,470
Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	551,129	902,117
Net position of Internal Service Fund separately reported as proprietary fund	1,689,082	1,249,510
Compensated absences in governmental activities are not financial expenditures and therefore are not reported as a liability in governmental funds.	<u>(268,561)</u>	<u>(294,266)</u>
Net position of governmental activities	<u>\$ 48,355,797</u>	<u>50,157,319</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES—GOVERNMENTAL FUNDS**

*Year Ended June 30, 2013*

	General <u>Fund</u>	Gifts and <u>Grants Fund</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 30,705,493	-	30,705,493
Collections on book fines and copy services	747,417	-	747,417
Gifts and grants	-	265,088	265,088
State revenue	287,392	-	287,392
Investment losses	(407,625)	-	(407,625)
Other	371,196	-	371,196
Total revenues	<u>31,703,873</u>	<u>265,088</u>	<u>31,968,961</u>
<b>Expenditures:</b>			
Personal services	21,689,792	20,395	21,710,187
<b>Maintenance and operations:</b>			
Contractual services	3,649,567	174,804	3,824,371
Commodities	1,470,643	(2,483)	1,468,160
Capital outlays	7,492,906	92,638	7,585,544
Total expenditures	<u>34,302,908</u>	<u>285,354</u>	<u>34,588,262</u>
Net changes in fund balances	(2,599,035)	(20,266)	(2,619,301)
Fund balances, beginning of year	<u>32,837,004</u>	<u>98,484</u>	<u>32,935,488</u>
Fund balances, end of year	<u>\$ 30,237,969</u>	<u>78,218</u>	<u>30,316,187</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES—GOVERNMENTAL FUNDS, CONTINUED**

*Year Ended June 30, 2012*

	General <u>Fund</u>	Gifts and <u>Grants Fund</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 30,486,312	-	30,486,312
Collections on book fines and copy services	704,587	-	704,587
Gifts and grants	-	233,771	233,771
State revenue	286,073	-	286,073
Investment earnings	423,159	-	423,159
Other	139,391	-	139,391
Total revenues	<u>32,039,522</u>	<u>233,771</u>	<u>32,273,293</u>
Expenditures:			
Personal services	19,976,857	97,293	20,074,150
Maintenance and operations:			
Contractual services	3,636,300	171,407	3,807,707
Commodities	1,301,127	612	1,301,739
Capital outlays	7,970,657	80,481	8,051,138
Total expenditures	<u>32,884,941</u>	<u>349,793</u>	<u>33,234,734</u>
Net changes in fund balances	(845,419)	(116,022)	(961,441)
Fund balances, beginning of year	<u>33,682,423</u>	<u>214,506</u>	<u>33,896,929</u>
Fund balances, end of year	<u>\$ 32,837,004</u>	<u>98,484</u>	<u>32,935,488</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**RECONCILIATIONS OF NET CHANGES IN GOVERNMENTAL FUND BALANCES TO  
GOVERNMENTAL ACTIVITIES CHANGES IN NET POSITION**

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Net changes in fund balances—total governmental funds	\$ (2,619,301)	(961,441)
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets:		
Depreciation expense	(3,549,606)	(3,234,055)
Capital additions	<u>5,358,879</u>	<u>5,199,584</u>
	<u>1,809,273</u>	<u>1,965,529</u>
Disposals of capital assets are not considered to be expenditures in the governmental funds. Receipts of funds from the sale of capital assets are considered revenue in the governmental funds. They are, however, recorded as overall loss in the statements of activities.	(1,105,783)	(1,026,069)
Compensated absences are not considered to be expenditures in the governmental funds. They are, however, recorded as expenses in the statements of activities.	25,705	(20,117)
Because some property taxes will not be collected for several months after the Library's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are instead counted as deferred revenues. They are, however, recorded as revenues in the statements of activities.	(142,676)	(497,415)
Uncollectible property taxes receivable that have been written-off are not considered to be revenues in the governmental funds. They are, however, recorded as a reduction of recognized revenue in the statements of activities.	(208,312)	(293,126)
The statements of activities include net activity of the Internal Service Fund, which is shown as a proprietary fund in the fund financial statements.	<u>439,572</u>	<u>230,135</u>
Changes in net position of governmental activities	<u>\$ (1,801,522)</u>	<u>(602,504)</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**BALANCE SHEETS—PROPRIETARY FUND**

<i>June 30,</i>	<i>2013</i>	<i>2012</i>
	<u>Governmental Activities— Internal Service Fund</u>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,771,172	1,231,466
Stop-loss reimbursement receivable	<u>35,572</u>	<u>120,921</u>
Total assets	<u>1,806,744</u>	<u>1,352,387</u>
<b>Liabilities</b>		
Claims payable	<u>117,662</u>	<u>102,877</u>
<b>Net Position</b>		
Unrestricted	<u>\$ 1,689,082</u>	<u>1,249,510</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN  
NET POSITION—PROPRIETARY FUND**

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
	Governmental Activities— Internal Service Fund	
Operating revenues:		
Insurance premiums	\$ 2,304,480	2,282,459
Stop-loss reimbursement	284,906	410,130
Refunds and miscellaneous	26,131	2,778
Total operating revenues	2,615,517	2,695,367
Operating expenses:		
Claims	2,178,075	2,467,216
Net operating income	437,442	228,151
Non-operating revenues:		
Interest income	2,130	1,984
Changes in net position	439,572	230,135
Net position, beginning of year	1,249,510	1,019,375
Net position, end of year	\$ 1,689,082	1,249,510

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENTS OF CASH FLOWS—PROPRIETARY FUND**

**Increase (Decrease) in Cash and Cash Equivalents**

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
	Governmental Activities— Internal Service Fund	
<b>Cash flows from operating activities:</b>		
Cash received from other fund for services	\$ 2,304,480	2,282,459
Receipts from reinsurance	370,255	306,798
Payments of claims	(2,163,290)	(2,438,604)
Other receipts	26,131	2,778
Net cash provided by operating activities	537,576	153,431
<b>Cash flows from investing activities:</b>		
Interest on investments	2,130	1,984
Net cash provided by investing activities	2,130	1,984
<b>Net increase in cash and cash equivalents</b>	539,706	155,415
Cash and cash equivalents, beginning of year	1,231,466	1,076,051
Cash and cash equivalents, end of year	\$ 1,771,172	1,231,466
<b>Reconciliation of net operating income to net cash provided by operating activities:</b>		
Net operating income	\$ 437,442	228,151
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Decrease (increase) in receivables	85,349	(103,332)
Increase in claims payable	14,785	28,612
Net cash provided by operating activities	\$ 537,576	153,431

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM****STATEMENTS OF FIDUCIARY NET POSITION—FIDUCIARY FUNDS***June 30, 2013*

	Pension <u>Fund</u>	Flex Benefit <u>Fund</u>	Defined Contribution <u>Fund</u>	Total Fiduciary <u>Funds</u>
<b>Assets</b>				
Current assets:				
Cash	\$ 1,216,126	38,830	-	1,254,956
Receivables (unsettled trades and accrued income)	61,395	-	-	61,395
Investments	<u>22,560,581</u>	<u>-</u>	<u>12,048,153</u>	<u>34,608,734</u>
Total current assets	<u>23,838,102</u>	<u>38,830</u>	<u>12,048,153</u>	<u>35,925,085</u>
<b>Liabilities</b>				
Current liabilities:				
Employee benefits payable	-	13,830	-	13,830
Prepayment from the Library	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total current liabilities	<u>-</u>	<u>38,830</u>	<u>-</u>	<u>38,830</u>
<b>Net Position</b>				
Net position restricted for pensions and insurance	<u>\$ 23,838,102</u>	<u>-</u>	<u>12,048,153</u>	<u>35,886,255</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM****STATEMENTS OF FIDUCIARY NET POSITION—FIDUCIARY FUNDS, CONTINUED***June 30, 2012*

	Pension <u>Fund</u>	Flex Benefit <u>Fund</u>	Defined Contribution <u>Fund</u>	Total Fiduciary <u>Funds</u>
<b>Assets</b>				
Current assets:				
Cash	\$ 904,783	41,715	-	946,498
Receivables (unsettled trades and accrued income)	70,911	-	-	70,911
Investments	<u>20,490,521</u>	<u>-</u>	<u>9,596,260</u>	<u>30,086,781</u>
Total current assets	<u>21,466,215</u>	<u>41,715</u>	<u>9,596,260</u>	<u>31,104,190</u>
<b>Liabilities</b>				
Current liabilities:				
Employee benefits payable	-	16,715	-	16,715
Prepayment from the Library	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
Total current liabilities	<u>-</u>	<u>41,715</u>	<u>-</u>	<u>41,715</u>
<b>Net Position</b>				
Net position restricted for pensions and insurance	<u>\$ 21,466,215</u>	<u>-</u>	<u>9,596,260</u>	<u>31,062,475</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION—FIDUCIARY FUNDS**

*Year Ended June 30, 2013*

	<u>Pension Fund</u>	<u>Flex Benefit Fund</u>	<u>Defined Contribution Fund</u>	<u>Total Fiduciary Funds</u>
Additions:				
Contributions:				
Employer	\$ 1,074,744	-	850,894	1,925,638
Employee	108,805	579,215	493,504	1,181,524
Interest and dividend income	630,426	-	2,839	633,265
Net realized gain on sale of investments	784,548	-	49,064	833,612
Net unrealized gain on investments	<u>1,156,491</u>	<u>-</u>	<u>1,339,786</u>	<u>2,496,277</u>
Total additions	<u>3,755,014</u>	<u>579,215</u>	<u>2,736,087</u>	<u>7,070,316</u>
Deductions:				
Benefits paid	1,201,505	576,325	256,747	2,034,577
Trustee and management fees	175,070	2,890	27,447	205,407
Miscellaneous	<u>6,552</u>	<u>-</u>	<u>-</u>	<u>6,552</u>
Total deductions	<u>1,383,127</u>	<u>579,215</u>	<u>284,194</u>	<u>2,246,536</u>
Changes in net position	2,371,887	-	2,451,893	4,823,780
Net position, beginning of year	<u>21,466,215</u>	<u>-</u>	<u>9,596,260</u>	<u>31,062,475</u>
Net position, end of year	<u>\$ 23,838,102</u>	<u>-</u>	<u>12,048,153</u>	<u>35,886,255</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**METROPOLITAN LIBRARY SYSTEM**

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION—FIDUCIARY FUNDS,  
CONTINUED**

*Year Ended June 30, 2012*

	<u>Pension Fund</u>	<u>Flex Benefit Fund</u>	<u>Defined Contribution Fund</u>	<u>Total Fiduciary Funds</u>
Additions:				
Contributions:				
Employer	\$ 1,114,433	-	796,612	1,911,045
Employee	120,065	548,412	577,603	1,246,080
Interest and dividend income	641,011	17	38,865	679,893
Net realized gain on sale of investments	454,426	-	-	454,426
Net unrealized (loss) gain on investments	(1,355,680)	-	31,488	(1,324,192)
Total additions	<u>974,255</u>	<u>548,429</u>	<u>1,444,568</u>	<u>2,967,252</u>
Deductions:				
Benefits paid	1,145,558	545,508	684,304	2,375,370
Trustee and management fees	168,511	2,879	23,113	194,503
Miscellaneous	1,382	42	-	1,424
Total deductions	<u>1,315,451</u>	<u>548,429</u>	<u>707,417</u>	<u>2,571,297</u>
Changes in net position	(341,196)	-	737,151	395,955
Net position, beginning of year	<u>21,807,411</u>	<u>-</u>	<u>8,859,109</u>	<u>30,666,520</u>
Net position, end of year	<u>\$ 21,466,215</u>	<u>-</u>	<u>9,596,260</u>	<u>31,062,475</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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### (1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Metropolitan Library System's (the "Library") financial statements are prepared in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB).

#### **Reporting Entity**

The Library is a corporate body for public purposes created under Title 65 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. There are no component units included within the reporting entity.

Under the Oklahoma Metropolitan Library Act (the "Act"), the Library is governed by the Metropolitan Library Commission of Oklahoma County (the "Commission"). Effective July 31, 2007, Section 554 of the Act was amended, increasing the number of Commission voting members from 19 to 27. Commission members include: 13 voting members who are appointees of the City of Oklahoma City; 1 voting member who is an appointee of the Oklahoma County Commissioners; 1 voting member each from the cities of Bethany, Choctaw, Del City, Edmond, Harrah, Jones, Luther, Midwest City, Nicoma Park, the Village, and Warr Acres; and 2 ex-officio members—the Mayor of Oklahoma City and the Chairman of the Oklahoma County Commissioners, for a total of 27 voting members. The Commission also includes one nonvoting member, the Librarian, who conducts Library operations.

#### **Basis of Presentation**

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Library does not have any activities classified as business-type activities. Internal Service Fund activity is eliminated in the fund financial statements to avoid "doubling up" revenues and expenses. Fiduciary funds are excluded from the government-wide and fund financial statements, but are reported separately in the fiduciary fund financial statements.

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Basis of Presentation, Continued

##### *Government-Wide Financial Statements*

In the government-wide statements of net position, the Library's governmental activities are reported using the accrual basis of accounting. The Library's net position are reported in three parts—net investment in capital assets; restricted; and unrestricted. Revenues are recognized when earned and expenses are recognized when incurred.

The government-wide statements of activities report both the gross and net cost of each of the Library's programs and functions. The functions are also supported by general government revenues. The statements of activities reduce gross expenses (including depreciation) by related program revenues, operating grants and contributions, and capital grants and contributions. Program revenues must be directly associated with the function. Charges for services include charges and fees to customers for fines and charges for services provided. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

All interfund transactions between governmental funds and internal service funds are eliminated in the government-wide statements.

The net costs are normally covered by general revenue (property taxes, state aid, other taxes, etc.).

The government-wide focus is more on the sustainability of the Library as an entity and the changes in the Library's net position resulting from the current year's activities.

##### *Fund Financial Statements*

Fund financial statements report detailed information about the Library. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Nonmajor funds, if any, are aggregated and presented in a single column.

All governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Basis of Presentation, Continued

##### *Fund Financial Statements, Continued*

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

Fiduciary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans. Employer and participant contributions are recognized in the period in which the contributions are due and the Library has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the plan.

The Library reports the following major governmental funds:

#### General Fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund.

#### Special Revenue Fund:

*Gifts and Grants Fund*—The Library accounts for resources received from various gifts and grants. These resources are restricted to, or designated for, specific purposes by a grantor.

Additionally, the Library reports the following fund types:

#### Proprietary Fund:

*Internal Service Fund*—Revenues and expenses related to services provided to the Library for employee insurance are accounted for in the internal service fund, the insurance fund.

#### Fiduciary Funds:

*Employee Benefit Trust Funds*—The Pension Fund, the Flex Benefit Fund, and the Defined Contribution Fund are used to report assets held in trust for members and beneficiaries of the plans, and the assets cannot be used to support the Library's operating programs.

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

The government-wide financial statements are presented on the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements.

Revenues are recognized when earned and expenses are recognized when a liability is incurred. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**Capital Assets**

Capital assets purchased or acquired with an original cost of \$500 or more and all books and materials are reported at historical cost or estimated historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	30 years
Furniture and fixtures	7 years
Computer equipment	4 years
Vehicles	5 years
Books and materials	5 years

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Compensated Absences**

The Library accrues accumulated unpaid annual leave when it has been earned by the employee. Generally, up to 75% of annual leave must be taken during the calendar year earned and compensated absences are reported as current liabilities. Eligible employees who end their employment with the Library are reimbursed for each day of accumulated annual leave.

**Annual Budget**

The Library is required by state law to prepare an annual budget. The Oklahoma County Excise Board formally approves an annual budget for the General Fund.

**Cash**

The Library considers all cash on-hand, demand deposits, money market checking, and certificates of deposit held at an individual bank which are subject to early withdrawal penalties, no matter what the maturity period, to be cash.

**Investments**

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments held at June 30, 2013 and 2012, with original maturities greater than 1 year are stated at fair value.

**Investment Earnings**

Investment earnings principally consist of interest income and fair market value adjustments as the investments are presented at fair value. Investment (losses) earnings for the years ended June 30 were as follows:

	<u>2013</u>	<u>2012</u>
Interest income	\$ 299,612	357,088
Fair market value adjustment	<u>(707,237)</u>	<u>66,070</u>
Investment (losses) earnings	<u>\$ (407,625)</u>	<u>423,158</u>

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Property Tax Revenues**

The Library is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property within Oklahoma County. The County Assessor, upon receipt of the certification of tax levies from the Oklahoma County Excise Board, extends the tax levies on the tax roll for submission to the County Treasurer prior to October 1. The County Treasurer must commence tax collection within 15 days of receipt of the tax rolls. The first half of taxes are due prior to January 1. The second half are due prior to April 1.

If the first payment is not made timely, the entire tax becomes due and payable on January 1. Second half taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has 2 years to redeem the property by paying the taxes and penalty owed. If at the end of 2 years the owner has not done so, the purchaser is issued a deed to the property. The Oklahoma County Assessor's Office bills and collects the property taxes and remits to the Library its share.

**Property Taxes Receivable**

Property taxes receivable by the Library include uncollected taxes assessed as of October 1, 2012 and 2011, and earlier. The Library considers prior years' experience in estimating uncollectible property taxes. The balance in the allowance account was \$61,436 and \$128,856 as of June 30, 2013 and 2012, respectively. No provision has been made in the other funds for uncollectible amounts. All property taxes earned at year-end but not yet received are included in receivables reported on the government-wide statements. At June 30, 2013 and 2012, the Library wrote-off \$275,732 and \$363,979, respectively, of property taxes receivable as an uncollectible amount which related to the property taxes receivable of 2006 and earlier years. The write-off of \$275,732 in 2013 resulted in an increase to the allowance account of \$208,312 as all 2006 and prior years' receivables were written-off. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Any remaining property taxes due are deferred until they become available.

Changes in the allowance for the years ended June 30 were as follows:

	<u>2013</u>	<u>2012</u>
Balance, as of the beginning of the year	\$ 128,856	199,709
Provision added to allowance during the year	208,312	293,126
Charge-offs	<u>(275,732)</u>	<u>(363,979)</u>
Balance, as of the end of the year	<u>\$ 61,436</u>	<u>128,856</u>

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### State Revenues

The Library receives revenue from the State and the Oklahoma Department of Libraries to administer certain categorical library programs.

#### Interfund Transfers

During the course of normal operations, the Library has transactions between funds, including expenditures and transfers of resources to provide services and purchase assets. Transactions that are normal and recurring between funds are recorded as operating transfers.

Interfund transfers were used to transfer grant receipts from the Gifts and Grants Fund to the General Fund. For the purpose of the statements of activities, all interfund transfers between individual governmental funds have been eliminated.

#### Contributed Facilities and Services

The Library operates several branches located in government-owned buildings and receives certain services without charge. The estimated fair rental value of the premises and services is not reported in the accompanying statements of revenues, expenditures, and changes in fund balances.

#### Grants

The Library records income from grants in the period received or to the extent of expenses paid prior to reimbursement by a grant.

#### Income Taxes

The Library was established under the provisions of the Oklahoma Constitution and as such is exempt from income taxes under the Internal Revenue Code as a unit of government.

#### Prepaid Expenses

The Library uses the consumption method to record prepaid expenses. Prepaid expenses are payments in advance of the receipt of goods or services in exchange transactions and are usually made for insurance and rent. Prepaid expenses are reported as financial resources at the time of prepayment, and expenditures for prepaid services are recognized when the related services are received. Included in prepaid expenses is \$25,000 paid by the Library to the Flex Benefit Fund, which the Flex Benefit Fund reflects a liability.

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Restricted Resources

The Library records gifts and grants as restricted when the donor specifies a restriction on the timing or use of the gift or grant. Expenses are allocated first to the restricted resource. If additional expense is incurred, the expense is allocated to unrestricted funds when the restriction has been depleted.

#### Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Equity Classification

##### *Government-Wide Financial Statements*

Equity is classified as net position and displayed in three components:

- (a) Net investment in capital assets—consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (b) Restricted—consists of net position with constraints placed on the use either by (i) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (ii) law through constitutional provisions or enabling legislation.
- (c) Unrestricted—all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the Library’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

See Independent Auditors’ Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Equity Classification, Continued

##### *Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. The classifications are defined as:

- (a) Nonspendable fund balance—includes amounts that cannot be spent because they are either (i) not in spendable form or (ii) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash, including prepaid expenses.

It is the responsibility of the Library's Finance Director to identify and report all nonspendable funds appropriately in the Library's financial statements.

- (b) Restricted fund balance—consists of amounts with constraints placed on the use of resources either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation.

It is the responsibility of the Library's Finance Director to identify and report all restricted funds appropriately in the Library's financial statements. The Library has identified the Gifts and Grants Fund as a restricted fund balance.

- (c) Committed fund balance—reflects specific purposes pursuant to constraints imposed by formal action of the Library's highest level of decision-making authority. Also, such constraints can only be removed or changed by the same form of formal action.

For purposes of the committed fund balance, the Commission is considered the Library's highest level of decision-making authority. Funds set aside by the Commission as committed fund balances require the passage of a resolution by a majority vote of the members of the Commission. The passage of such a resolution must take place prior to the Library's fiscal year-end in order for it to be applicable to the Library's fiscal year-end, although it is permitted for the specific amount of the commitment to be determined after the fiscal year-end if additional information is required in order to determine the exact amount to be committed. The Commission has the authority to remove or change the commitment of funds with a majority vote.

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Equity Classification, Continued**

*Fund Statements, Continued*

- (d) Assigned fund balance—reflects amounts that are constrained by the Library’s intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Assigned funds cannot cause a deficit in the unassigned fund balance.

For purposes of the assigned fund balance, the Commission is considered the Library’s highest level of decision-making authority. Any funds that the Finance Director assigns for specific purposes must be reported to the Commission at its next regular meeting. The assignment of funds shall be recorded in the Commission’s official meeting minutes.

- (e) Unassigned fund balance—is the residual classification for the General Fund only. Unassigned fund balance essentially consists of excess funds that have not been classified in the above four fund balance categories.

It is the Library’s policy to first use the restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The Library’s policy for the use of the unrestricted fund balance amounts require that committed amounts be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

See Independent Auditors’ Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Equity Classification, Continued**

*Fund Statements, Continued*

Effective July 1, 2010, the Library implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The following tables show the fund balance classifications as shown on the governmental funds balance sheets in accordance with GASB 54 as of June 30:

	2013		
	General Fund	Gifts and Grants Fund	Total Governmental Funds
Fund balances:			
Nonspendable:			
Prepaid expenses	\$ 87,107	-	87,107
Restricted:			
Grants or gifts received for special programs	-	78,218	78,218
Assigned:			
Cash flow	6,000,000	-	6,000,000
Integrated Library System	500,000	-	500,000
Reserve for additional location	2,070,714	-	2,070,714
Reserve for extra payday	120,000	-	120,000
Capital improvement:			
Belle Isle Library	950,000	-	950,000
Bethany Library	442,957	-	442,957
Capitol Hill Library	538,000	-	538,000
Del City Library	589,276	-	589,276
New Edmond Library	4,000,000	-	4,000,000
Village Library	491,481	-	491,481
Warr Acres Library	426,522	-	426,522
Total assigned	16,128,950	-	16,128,950
Unassigned	14,021,912	-	14,021,912
Total fund balances	\$ 30,237,969	78,218	30,316,187

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Equity Classification, Continued**

*Fund Statements, Continued*

	2012		
	<u>General Fund</u>	<u>Gifts and Grants Fund</u>	<u>Total Governmental Funds</u>
Fund balances:			
Nonspendable:			
Prepaid expenses	\$ 79,933	-	79,933
Restricted:			
Grants or gifts received for special programs	-	98,484	98,484
Assigned:			
Cash flow	6,000,000	-	6,000,000
Northwest Library opening	1,500,000	-	1,500,000
Reserve for additional location	1,000,000	-	1,000,000
Reserve for extra payday	60,000	-	60,000
Capital improvement:			
Belle Isle Library	950,000	-	950,000
Bethany Library	442,957	-	442,957
Capitol Hill Library	1,500,000	-	1,500,000
Del City Library	688,000	-	688,000
Jones Library	378,000	-	378,000
New Edmond Library	4,000,000	-	4,000,000
Village Library	491,481	-	491,481
Warr Acres Library	426,522	-	426,522
Future capital improvements	1,896,681	-	1,896,681
Total assigned	19,333,641	-	19,333,641
Unassigned	13,423,430	-	13,423,430
Total fund balances	<u>\$ 32,837,004</u>	<u>98,484</u>	<u>32,935,488</u>

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is used, under which purchase orders, contracts, and other commitments for the expenditures of resources are recorded as expenditures of the applicable funds. This is an extension of the formal budgetary integration in the General Fund. Encumbrances do not represent any further constraint on the use of amounts than is already communicated by governmental fund balance classification as restricted, committed, or assigned. As of June 30, 2013 and 2012, approximately \$1,436,000 and \$1,757,000, respectively, of encumbrances were outstanding.

#### Recent Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures

The requirements in GASB 62 will improve financial reporting by contributing GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The Library adopted GASB 62 as of July 1, 2012. The adoption had no material effects on the Library's operations or net position.

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Recent Accounting Pronouncements, Continued

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. The Library adopted GASB 63 effective July 1, 2012. The adoption of the statements required the Library to adopt the term "net position" as required. In addition, as required by GASB 63, the Library determined that as of June 30, 2013 and 2012, there were no items of deferred outflows of resources or deferred inflows of resources, as presently defined, to be reported.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources; and recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. The Library has not determined the effects, if any, of implementing the GASB 65.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67). GASB 67 addresses reporting by pension plans that administer benefits for governments and outlines basic framework for the separately issued financial reports of defined benefit pension plans, and details note disclosure requirements for defined benefit and defined contribution pension plans. This statement is effective for financial statements for periods beginning after June 15, 2013. The Library has not determined the effects, if any, of implementing the GASB 67.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. This statement is effective for financial statements for periods beginning after June 15, 2014. The Library has not determined the effects, if any, of implementing the GASB 68.

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through October 8, 2013, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

### (2) CASH AND INVESTMENTS

The Library's investment policies are governed by State statutes. Permissible investments include direct obligations of the U.S. government and agencies; negotiable certificates of deposit of savings and loan associations and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Non-negotiable certificates of deposit are considered to be cash equivalents. Collateral is required for demand deposits and certificates of deposit on all amounts not covered by Federal Deposit Insurance Corporation insurance.

#### Custodial Credit Risk

##### Custodial Credit Risk—Deposits

For deposits, custodial credit risk is the risk that in the event of the failure of a counterparty, the Library will not be able to recover the value of its deposits. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. At June 30, 2013 and 2012, the carrying amount of the Library's cash and cash equivalents was \$8,826,222 and \$15,166,562, respectively, and the bank balances were \$9,234,088 and \$15,616,930, respectively. The difference in balances was primarily due to outstanding checks.

The fair value of investments pledged to secure deposits was approximately \$10,412,000 and \$18,978,000 at June 30, 2013 and 2012, respectively. The deposits were fully insured as of June 30, 2013 and 2012.

##### Custodial Credit Risk—Investments

Investments are made under the custody of the Library Treasurer in accordance with investment policies complying with State statutes and Library policy.

Custodial credit risk is the risk that, in the event of the failure of a counterparty, the Library will not be able to recover the value of its investments. Investment securities are exposed to custodial risk if they are uninsured, are not registered in the name of the Library, or are held by a counterparty or the counterparty's trust department but not in the name of the Library. While the investment policy does not specifically address custodial credit risk, all investments are insured and collateralized.

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(2) CASH AND INVESTMENTS, CONTINUED**

**Interest Rate Risk and Credit Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest changes. Fixed-income securities are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The following tables provide information concerning credit risk.

As of June 30, the Library had the following investments and maturities:

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>2013</u>				<u>%</u>
			<u>Investment Maturities</u>				
			<u>(In Years)</u>				
			<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More</u>		
Federal Home Loan Bank Federal National Mortgage Association	Aaa	\$ 11,656,824	-	7,811,670	3,845,154	50%	
Federal Home Loan Mortgage Corporation	Aaa	7,930,892	-	6,015,016	1,915,876	34%	
		<u>3,865,936</u>	<u>-</u>	<u>1,958,962</u>	<u>1,906,974</u>	<u>16%</u>	
		<u>\$ 23,453,652</u>	<u>-</u>	<u>15,785,648</u>	<u>7,668,004</u>	<u>100%</u>	

<u>Investment Type</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>2012</u>				<u>%</u>
			<u>Investment Maturities</u>				
			<u>(In Years)</u>				
			<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More</u>		
Federal Home Loan Bank Federal National Mortgage Association	Aaa	\$ 7,023,724	1,020,804	6,002,920	-	37%	
Federal Home Loan Mortgage Corporation	Aaa	4,102,830	-	4,102,830	-	21%	
		<u>8,028,698</u>	<u>-</u>	<u>6,018,190</u>	<u>2,010,508</u>	<u>42%</u>	
		<u>\$ 19,155,252</u>	<u>1,020,804</u>	<u>16,123,940</u>	<u>2,010,508</u>	<u>100%</u>	

See Independent Auditors' Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (2) CASH AND INVESTMENTS, CONTINUED

#### Pension Fund

The cash and investments of the Pension Fund are invested in various assets with the Bank of Oklahoma and may be used only for the payment of benefits to the members of the pension plan (see Note 6). The composition of the pension fund at fair value as of June 30 is shown in the following table:

	<u>2013</u>	Exposure as a Percentage of Total <u>Investment</u>	<u>2012</u>	Exposure as a Percentage of Total <u>Investment</u>
Cash	\$ <u>1,216,126</u>	5%	<u>904,783</u>	4%
Fixed income:				
Corporate bonds	<u>2,389,485</u>	10%	<u>2,920,823</u>	14%
Equities:				
Common stock	10,314,191	43%	10,343,926	48%
Equity funds	3,306,527	14%	2,853,963	13%
Bond funds	<u>6,550,378</u>	27%	<u>4,371,809</u>	20%
	<u>20,171,096</u>		<u>17,569,698</u>	
Receivables:				
Unsettled trades and accrued income	<u>61,395</u>	<u>1%</u>	<u>70,911</u>	<u>1%</u>
	<u>\$ 23,838,102</u>	<u>100%</u>	<u>21,466,215</u>	<u>100%</u>

On March 28, 1983, the Commission appointed a Board of Administrators for the pension plan—the Library Retirement Pension Board (the “Pension Board”). The Pension Board has the responsibility for the management of the Pension Fund and has the responsibility for reviewing the pension plan and reporting on its status to the Commission annually. The Pension Board consists of the three officers of the Commission and three designated Library staff employees. Overall investment guidelines provide for diversification and allow investment in domestic and international equities, fixed-income securities, and cash equivalents.

See Independent Auditors’ Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) CASH AND INVESTMENTS, CONTINUED**

**Pension Fund, Continued**

The following are the investment allocation limits:

	<u>Upper Limit</u>
Domestic large cap equities	50%
Domestic small cap equities	9%
International equities	9%
Fixed-income investments	45%
Cash equivalents	5%

The Pension Fund addresses custodial credit risk, with the policy providing for the engagement of a custodian who accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured, or called items; and provides periodic accounting to the Commission. At June 30, 2013 and 2012, the pension fund held \$23,838,102 and \$21,466,215, respectively, in cash, investments, and receivables. This amount was held by the investment counterparty, in the name of the pension plan.

Pursuant to the Prudent Investor Rule, Oklahoma statutes restrict Pension Fund investing.

*Custodial Credit Risk*—Custodial credit risk is the risk that in the event of the failure of a counterparty, the Library will not be able to recover the value of its investments. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Library, or are held by a counterparty or the counterparty's trust department but not in the name of the Library. All cash, cash equivalents, and investments of the Pension Fund are insured and collateralized.

*Concentration of Credit Risk*—The investment policy limits the concentration of equity investments to no more than 5% in any one issuer.

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(2) CASH AND INVESTMENTS, CONTINUED**

**Pension Fund, Continued**

The following table presents the individual investments exceeding the 5% threshold at June 30:

		2013		
<u>Classification of Investment</u>	<u>Name of Investment</u>	<u>Shares Held</u>	<u>Cost</u>	<u>Fair Value</u>
Bond fixed income fund	Pimco Total Return	192,661	\$ 2,122,386	2,073,031
		2012		
<u>Classification of Investment</u>	<u>Name of Investment</u>	<u>Shares Held</u>	<u>Cost</u>	<u>Fair Value</u>
Equity fixed income fund	Federated High Yield Bond	123,200	\$ 1,157,000	1,222,148

*Foreign Currency Risk*—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Pension Fund held no foreign investments at June 30, 2013 or 2012. As such, no Pension Fund investments were subject to foreign currency risk.

*Credit Risk*—Fixed-income investments are subject to credit risk. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The following table provides information as of June 30 concerning credit risk:

<u>S&amp;P 500 Rating</u>	2013		2012	
	<u>Fair Value</u>	Percentage of Total Fixed-Income Investments at Fair Value	<u>Fair Value</u>	Percentage of Total Fixed-Income Investments at Fair Value
AA+	\$ 354,064	15%	358,722	12%
AA	69,961	3%	72,040	2%
A+	205,669	9%	422,771	15%
A	1,008,393	41%	826,461	28%
A-	323,246	14%	1,240,829	43%
BBB+	221,568	9%	-	0%
BBB	206,584	9%	-	0%
	<u>\$ 2,389,485</u>	<u>100%</u>	<u>2,920,823</u>	<u>100%</u>

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(2) CASH AND INVESTMENTS, CONTINUED**

**Pension Fund, Continued**

*Interest Rate Risk*—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, the Pension Fund had the following fixed-income investments with maturities:

<u>Investment Type</u>	2013			
	<u>Investment Maturities at Fair Value (in Years)</u>			
	<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More, Less than 10</u>	<u>Total Fair Value</u>
Corporate bonds	<u>\$ 940,666</u>	<u>991,329</u>	<u>457,490</u>	<u>2,389,485</u>

  

<u>Investment Type</u>	2012			
	<u>Investment Maturities at Fair Value (in Years)</u>			
	<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More, Less than 10</u>	<u>Total Fair Value</u>
Corporate bonds	<u>\$ 355,789</u>	<u>1,763,429</u>	<u>801,605</u>	<u>2,920,823</u>

**Defined Contribution Fund**

The investments of the Defined Contribution Fund are invested in mutual funds and a guaranteed investment account with Mass Mutual Life Insurance Company and may be used only for the payment of benefits to the participants of the defined contribution plan (see Note 6).

The following table presents the fair value of the defined contribution plan’s investments by type at June 30:

<u>Investment Type</u>	<u>Fair Value</u>	
	<u>2013</u>	<u>2012</u>
Guaranteed interest account	\$ 2,020,532	1,397,456
Mutual funds	<u>10,027,621</u>	<u>8,198,804</u>
	<u>\$ 12,048,153</u>	<u>9,596,260</u>

See Independent Auditors’ Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) CASH AND INVESTMENTS, CONTINUED**

**Defined Contribution Fund, Continued**

*Custodial Credit Risk*—Custodial credit risk is the risk that in the event of the failure of a counterparty, the Library will not be able to recover the value of its investments. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Library, or are held by a counterparty or the counterparty’s trust department but not in the name of the Library. While the trust agreement does not specifically address custodial credit risk, all investments are insured and collateralized.

*Concentration of Credit Risk*—Except as noted below, no single investment exceeds 5% of the Defined Contribution Fund’s total investments. The following table presents the individual investments exceeding the 5% threshold at June 30:

2013		
<u>Classification of Investment</u>	<u>Name of Investment</u>	<u>Fair Value</u>
Mutual fund	Select Strategies Bond	\$ 804,538
Mutual fund	Destination Retirement 2020	1,218,195
Mutual fund	Destination Retirement 2030	913,196
Mutual fund	American Century Equity Growth Fund	1,305,074
Guaranteed interest account	Guaranteed interest account	2,020,532
2012		
<u>Classification of Investment</u>	<u>Name of Investment</u>	<u>Fair Value</u>
Mutual fund	Select Strategies Bond	\$ 709,064
Mutual fund	Destination Retirement 2020	1,027,517
Mutual fund	Destination Retirement 2030	553,900
Mutual fund	American Century Equity Growth Fund	1,013,813
Guaranteed interest account	Guaranteed interest account	1,397,456

See Independent Auditors’ Report.

# METROPOLITAN LIBRARY SYSTEM

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (3) COLLECTIONS

The Library has not capitalized existing inexhaustible collections, including research books, because the values are not readily determinable.

### (4) CAPITAL ASSETS

Capital assets of the Library at June 30 consisted of the following:

	<u>Balance at</u> <u>June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 315,571	-	-	315,571
Capital assets being depreciated:				
Library books	17,881,414	4,278,119	(3,422,005)	18,737,528
Furniture and fixtures	4,470,697	391,043	(106,003)	4,755,737
Computer equipment	2,805,784	668,768	(212,516)	3,262,036
Vehicles	582,316	20,949	(115,137)	488,128
Buildings and improvements	5,955,349	-	-	5,955,349
Total capital assets being depreciated	<u>31,695,560</u>	<u>5,358,879</u>	<u>(3,855,661)</u>	<u>33,198,778</u>
Less accumulated depreciation:				
Library books	10,656,911	2,506,742	(2,346,356)	10,817,297
Furniture and fixtures	3,160,496	271,117	(96,549)	3,335,064
Computer equipment	1,361,493	489,425	(197,592)	1,653,326
Vehicles	376,656	57,998	(109,381)	325,273
Buildings and improvements	<u>1,091,105</u>	<u>224,324</u>	<u>-</u>	<u>1,315,429</u>
Total accumulated depreciation	<u>16,646,661</u>	<u>3,549,606</u>	<u>(2,749,878)</u>	<u>17,446,389</u>
Total capital assets being depreciated, net	<u>15,048,899</u>	<u>1,809,273</u>	<u>(1,105,783)</u>	<u>15,752,389</u>
Capital assets, net	<u>\$ 15,364,470</u>	<u>1,809,273</u>	<u>(1,105,783)</u>	<u>16,067,960</u>

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(4) CAPITAL ASSETS, CONTINUED**

	<u>Balance at June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2012</u>
Capital assets not being depreciated:				
Land	\$ 315,571	-	-	315,571
Capital assets being depreciated:				
Library books	17,312,853	3,879,021	(3,310,460)	17,881,414
Furniture and fixtures	4,005,900	563,452	(98,655)	4,470,697
Computer equipment	2,362,321	706,337	(262,874)	2,805,784
Vehicles	531,542	50,774	-	582,316
Buildings and improvements	5,955,349	-	-	5,955,349
Total capital assets being depreciated	<u>30,167,965</u>	<u>5,199,584</u>	<u>(3,671,989)</u>	<u>31,695,560</u>
Less accumulated depreciation:				
Library books	10,600,170	2,363,272	(2,306,531)	10,656,911
Furniture and fixtures	3,054,466	197,122	(91,092)	3,160,496
Computer equipment	1,219,740	390,050	(248,297)	1,361,493
Vehicles	317,369	59,287	-	376,656
Buildings and improvements	866,781	224,324	-	1,091,105
Total accumulated depreciation	<u>16,058,526</u>	<u>3,234,055</u>	<u>(2,645,920)</u>	<u>16,646,661</u>
Total capital assets being depreciated, net	<u>14,109,439</u>	<u>1,965,529</u>	<u>(1,026,069)</u>	<u>15,048,899</u>
Capital assets, net	<u>\$ 14,425,010</u>	<u>1,965,529</u>	<u>(1,026,069)</u>	<u>15,364,470</u>

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(5) COMPENSATED ABSENCES**

Compensated absences are liquidated through the General Fund. Generally, up to 75% of annual leave must be taken during the calendar year earned and compensated absences are reported as current liabilities.

	<u>Balance at June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2013</u>	<u>Amounts Due Within 1 Year</u>
Compensated absences	\$ 294,266	973,222	(998,927)	268,561	268,561

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Amounts Due Within 1 Year</u>
Compensated absences	\$ 274,149	916,161	(896,044)	294,266	294,266

**(6) RETIREMENT PLANS**

**Defined Benefit Plan**

*Plan Description:* The Metropolitan Library System Pension Plan (the “Plan”) is a single-employer plan that covers some full-time employees of the Library. The Plan is a defined benefit plan which provides for retirement benefits based on length of service and salary. The Plan was amended effective January 1, 2008. This latest amendment lowered the vesting schedule from 5-year cliff vesting to 3 years. Death, early and late retirement, and deferred vested benefits are also available under the Plan. Assets of the Plan are held separately and may be used only for the payment of benefits to the members of the Plan. Actuarial valuations are performed annually on July 1.

The Plan’s membership consisted of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Retirees, disabled participants, and beneficiaries currently receiving benefits	82	78
Terminated vested participants	12	11
Active participants	58	64
	<u>152</u>	<u>153</u>

See Independent Auditors’ Report.

## METROPOLITAN LIBRARY SYSTEM

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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#### (6) RETIREMENT PLANS, CONTINUED

##### Defined Benefit Plan, Continued

*Plan Description, Continued:* Effective August 29, 2005, the Plan was frozen and no new employees are eligible to participate. A defined contribution plan was established for new employees.

Benefit payments for the Plan are as follows:

- a) The normal monthly retirement benefit will be 2.5% of an employee's average monthly earnings multiplied by years of credited service up to a maximum of 32 years. "Average monthly earnings" means the average of the employee's highest 60 consecutive completed calendar months of employment by the Library.
- b) The early retirement benefit will be the greater of the actuarial equivalent of the employee's accrued benefit at normal retirement date or the aggregate value of the employee's participant contributions plus interest credited.
- c) The late retirement benefits will be the greater of: 1) the normal retirement pension determined under the Plan, taking into account service and compensation credited after normal retirement age; or 2) the accrued benefit, determined as the later of normal retirement age or the end of the prior plan year, actuarially adjusted for late retirement.

*Funding Policy:* Participating employees contribute 4% of their compensation to the Plan. The Library contributes any additional amount necessary to fund normal cost and to amortize unfunded past service costs over a period of 30 years. The actuarial required contributions for 2013 and 2012 were \$1,074,744 and \$1,114,433, respectively, which equaled the annual pension cost for the years then ended. The actuarial required contribution for 2014 is \$1,130,104.

The Plan does not issue stand-alone financial statements and related required supplementary information. The information is included within these financial statements, notes to the financial statements, and the required supplementary information.

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(6) RETIREMENT PLANS, CONTINUED**

**Defined Benefit Plan, Continued**

*Net Pension Obligation (Benefit) and Annual Pension Cost:* The required contribution is determined as part of the July 1<sup>st</sup> actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The actuarial assumptions included:

	<u>2013</u>	<u>2012</u>
(a) Investment rate of return	7%	7%
(b) Projected salary increases	5%	5%
(c) Post-retirement increases	7%	7%
(d) Mortality	up 84	up 84

The Library has contributed the actuarially required contribution annually. As a result, there was no net pension obligation as of June 30, 2013 or 2012.

Three-year trend information is as follows:

<u>3-Year Trend Information</u>					
<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Valuation of Assets (A)</u>	<u>Present Value of Future Benefits (B)</u>	<u>Excess of Plan Assets Over Present Value of Future Benefits (A)-(B)</u>
2011	\$ 996,982	100.0%	21,807,411	16,945,742	4,861,669
2012	1,114,433	100.0%	21,466,215	18,078,488	3,387,727
2013	1,074,744	100.0%	23,838,102	19,232,188	4,605,914

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(6) RETIREMENT PLANS, CONTINUED**

**Defined Benefit Plan, Continued**

*Net Pension Obligation (Benefit) and Annual Pension Cost, Continued:* The funded status of the Plan as of July 1, 2013, the most recent actuarial valuation date, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2013	\$ 23,051,652	27,879,489	4,827,837	83%	2,607,287	185%

For purposes of this schedule, the AAL for the Plan is determined using the entry age normal funding method. Note that the annual required contribution for the Plan is calculated using the aggregate actuarial cost method.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Defined Contribution Plan**

Effective August 29, 2005, the Metropolitan Library System Defined Contribution Plan (the "Contribution Plan") was established. The Contribution Plan is intended to be a governmental plan as defined in Internal Revenue Code Section 414(d), and is to be approved and qualified by the Internal Revenue Service as satisfying the governmental plan requirements of Sections 401(a) and 501(a) and other pertinent provisions of the Internal Revenue Code of 1986. Under the Contribution Plan, the employer's contribution shall be discretionary, to be determined by the employer, and is available to all participants. During 2013 and 2012, the Library contributed 10% of each participant's compensation. Participants are fully vested in the employer's contributions after 3 years. Participants may make voluntary contributions of 4% or 6% of compensation before tax. Participants are fully vested in the voluntary contributions. Participants may direct the Contribution Plan's trustee in the investment of their individual account balances. Normal retirement age is the later of a participant's 65<sup>th</sup> birthday or the 5<sup>th</sup> anniversary of the first day of the plan year in which participation in the Contribution Plan commenced. For the years ended June 30, 2013 and 2012, the Library's contribution to the Contribution Plan was \$850,894 and \$796,612, respectively.

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(6) RETIREMENT PLANS, CONTINUED**

**Deferred Compensation Plan**

The Library offers its employees a Deferred Compensation Plan as authorized by Section 457 of the Internal Revenue Code, as amended by the Tax Reform Act of 1986, and in accordance with the provisions of Sections 1701 through 1706 of Title 74 of the Oklahoma Statutes.

The Deferred Compensation Plan is available to all Library employees. Employees may direct the investment of their contributions in available investment options offered by the Deferred Compensation Plan. All interest, dividends, and investment fees are allocated to employees' accounts. For the years ended June 30, 2013 and 2012, employee contributions to the Deferred Compensation Plan totaled \$162,639 and \$187,011, respectively.

**(7) SELF-INSURANCE RISK OF LOSS**

The Library operates a self-insurance plan to fund its employee health benefits. The Library purchased insurance policies to limit its maximum possible benefit cost on both an employee basis and an aggregate basis. The Library has a contract with a third-party administrator to operate the self-insurance plan. The Library has limited its risk of loss by purchasing insurance to pay an individual's claim in excess of \$70,000 per year.

The carrying amount of liabilities for unpaid claims is equal to the amount of claims unpaid but due at year-end. This amount has been determined by the third-party administrator.

Changes in the claims liability amounts for the years ended June 30 were:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 102,877	74,265	96,866
Current year claims	2,178,075	2,467,216	1,874,831
Claim payments	<u>(2,163,290)</u>	<u>(2,438,604)</u>	<u>(1,897,432)</u>
Balance, end of year	<u>\$ 117,662</u>	<u>102,877</u>	<u>74,265</u>

See Independent Auditors' Report.

## METROPOLITAN LIBRARY SYSTEM

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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#### (8) RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters for which the Library carries commercial insurance. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded coverage in the past 3 years.

#### (9) COMMITMENTS AND CONTINGENCIES

##### Operating Leases

On an ongoing basis, the Library leases 19 branch library buildings from the area cities and Oklahoma City. All of the branch buildings, except for the Del City library building, and Almonte Shopping Center library building are leased for \$1 per year. The terms of the leases are for a period of 1 year and automatically renew each year for a total term of 10 years unless written notice is given by either party of its intent not to renew. The Library provides for all maintenance, utilities, repairs, and liability insurance for all leased buildings. The Del City library building is leased for \$400 per month. The Almonte Shopping Center library building is leased for approximately \$7,000 per month. On occasion, the Library makes contributions towards the construction of a new library building. The purpose of the contribution is for the Library to have partial say in the design of the building since the design and construction of the building can affect the operations of the Library. During the years ended June 30, 2013 and 2012, the Library made no such contribution.

Total lease and equipment rental expense for the years ended June 30, 2013 and 2012, was \$82,925 and \$21,647, respectively.

##### Legal

From time to time, the Library is involved in certain legal proceedings arising in the normal course of business. In the opinion of management and counsel, the ultimate disposition of such proceedings will not have a material effect on the Library's financial statements.

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION**

## METROPOLITAN LIBRARY SYSTEM

## SCHEDULE OF FUNDING PROGRESS

June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2010	\$ 20,026,476	25,103,798	5,077,322	80%	2,816,071	180%
July 1, 2011	21,089,287	26,611,547	5,522,260	79%	2,857,692	193%
July 1, 2012	21,868,195	26,808,086	4,939,891	82%	2,617,869	189%
July 1, 2013	23,051,652	27,879,489	4,827,837	83%	2,607,287	185%

<sup>(1)</sup> 10 years of history not available.

See Independent Auditors' Report.

See accompanying notes to Schedule of Funding Progress and  
Schedule of Contributions from the Employer.

**METROPOLITAN LIBRARY SYSTEM**

**SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER**

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*June 30, 2013*

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<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Employer Contributions</u>	<u>Percentage Contributed</u>
June 30, 2004	\$ 1,430,683	1,430,683	100%
June 30, 2005	1,573,250	1,573,250	100%
June 30, 2006	719,272	719,272	100%
June 30, 2007	550,340	550,340	100%
June 30, 2008	802,450	802,450	100%
June 30, 2009	712,700	712,700	100%
June 30, 2010	1,012,622	1,012,622	100%
June 30, 2011	996,982	996,982	100%
June 30, 2012	1,114,433	1,114,433	100%
<b>June 30, 2013</b>	<b>1,074,744</b>	<b>1,074,744</b>	100%

See Independent Auditors' Report.  
See accompanying notes to Schedule of Funding Progress and  
Schedule of Contributions from the Employer.

**METROPOLITAN LIBRARY SYSTEM**

**NOTES TO SCHEDULE OF FUNDING PROGRESS AND  
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER**

**June 30, 2013**

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The information presented in Schedule I and Schedule II was determined as part of an actuarial valuation by an independent enrolled actuary (Daily Access Corporation) at the dates indicated. Additional information as of the July 1, 2013, valuation follows:

Actuarial cost method:	Aggregate cost method
Amortization method:	None
Asset valuation method:	5-year smoothed market
	An expected actuarial value is equal to fair market value of assets less a decreasing fraction (4/5, 3/5, 2/5, and 1/5) of the gain or loss for each of the preceding four years, with gains being subtracted and losses being added. The gain or loss for a year is determined by calculating the difference between the expected value of the assets for the year and the fair market value of the assets at the valuation date. The expected value of the assets for the year is the fair market value of the assets at the valuation date of the prior year brought forward, with 7% interest to the valuation date for the current year, plus contributions minus benefit disbursements, all adjusted with 7% interest to the valuation date for the current year. The result will not exceed the corridor of 80% to 120% of fair market value.

Actuarial assumptions

Investment rate of return:	7%
Projected salary increases:	5%
Cost-of-living adjustment:	None

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**Schedule IV**

**BUDGETARY COMPARISON SCHEDULE—GENERAL FUND (UNAUDITED)**

*Year Ended June 30, 2013*

	Budgeted Amounts— <u>Original</u>	Budgeted Amounts— <u>Final</u>	Actual Amounts— Modified <u>Accrual Basis</u>	Modified Accrual to Budgetary Basis <u>Adjustments</u>	Actual Amounts— Budgetary <u>Basis</u>	Variance with Final Budget— Positive <u>(Negative)</u>
Budgetary fund balance, beginning of year:						
Carryover funds	\$ 10,880,866	10,880,866	13,503,363	2,404,006	11,099,357	218,491
Capital reserve	19,333,641	19,333,641	19,333,641	-	19,333,641	-
	<u>30,214,507</u>	<u>30,214,507</u>	<u>32,837,004</u>	<u>2,404,006</u>	<u>30,432,998</u>	<u>218,491</u>
Resources (inflows):						
Property taxes	27,784,378	27,784,378	30,705,493	41,693	30,663,800	2,879,422
Collections on book fines and copy services	450,000	450,000	747,417	-	747,417	297,417
State revenue	257,466	257,466	287,392	-	287,392	29,926
Investment (losses) earnings	-	-	(407,625)	(732,961)	325,336	325,336
Other	-	-	371,196	(386,700)	757,896	757,896
Total resources (inflows)	<u>28,491,844</u>	<u>28,491,844</u>	<u>31,703,873</u>	<u>(1,077,968)</u> <sup>(1)</sup>	<u>32,781,841</u>	<u>4,289,997</u>
Charges to appropriations (outflows):						
Personal services	23,232,501	23,232,501	21,689,792	61,763	21,628,029	1,604,472
Maintenance and operations:						
Contractual services	4,965,343	4,965,343	3,649,567	(107,420)	3,756,987	1,208,356
Commodities	1,571,822	1,571,822	1,470,643	(125,631)	1,596,274	(24,452)
Capital outlays—operations	<u>12,807,735</u>	<u>12,807,735</u>	<u>7,492,906</u>	<u>390,071</u>	<u>7,102,835</u>	<u>5,704,900</u>
Total charges to appropriations (outflows)	<u>42,577,401</u>	<u>42,577,401</u>	<u>34,302,908</u>	<u>218,783</u> <sup>(2)</sup>	<u>34,084,125</u>	<u>8,493,276</u>
Change in budgetary fund balance	(14,085,557)	(14,085,557)	(2,599,035)	(1,296,751)	(1,302,284)	12,783,273
Budgetary fund balance, end of year:						
Carryover funds	-	-	14,109,019	1,107,255	13,001,764	13,001,764
Capital reserve	<u>16,128,950</u>	<u>16,128,950</u>	<u>16,128,950</u>	<u>-</u>	<u>16,128,950</u>	<u>-</u>
	<u>\$ 16,128,950</u>	<u>16,128,950</u>	<u>30,237,969</u>	<u>1,107,255</u>	<u>29,130,714</u>	<u>13,001,764</u>

See Independent Auditors' Report.

**METROPOLITAN LIBRARY SYSTEM**

**Schedule IV**

**BUDGETARY COMPARISON SCHEDULE—GENERAL FUND (UNAUDITED), CONTINUED**

*Year Ended June 30, 2012*

	Budgeted Amounts— <u>Original</u>	Budgeted Amounts— <u>Final</u>	Actual Amounts— Modified <u>Accrual Basis</u>	Modified Accrual to Budgetary Basis <u>Adjustments</u>	Actual Amounts— Budgetary <u>Basis</u>	Variance with Final Budget— Positive <u>(Negative)</u>
Budgetary fund balance, beginning of year:						
Carryover funds	\$ 12,054,151	12,054,151	14,511,053	2,139,749	12,371,304	317,153
Capital reserve	19,171,370	19,171,370	19,171,370	-	19,171,370	-
	<u>31,225,521</u>	<u>31,225,521</u>	<u>33,682,423</u>	<u>2,139,749</u>	<u>31,542,674</u>	<u>317,153</u>
Resources (inflows):						
Property taxes	27,262,635	27,262,635	30,486,312	234,702	30,251,610	2,988,975
Collections on book fines and copy services	474,660	474,660	704,587	-	704,587	229,927
State revenue	290,807	290,807	286,073	-	286,073	(4,734)
Interest	-	-	423,159	-	423,159	423,159
Other	-	-	139,391	(153,056)	292,447	292,447
Total resources (inflows)	<u>28,028,102</u>	<u>28,028,102</u>	<u>32,039,522</u>	<u>81,646</u> <sup>(1)</sup>	<u>31,957,876</u>	<u>3,929,774</u>
Charges to appropriations (outflows):						
Personal services	21,539,793	21,539,793	19,976,857	96,065	19,880,792	1,659,001
Maintenance and operations:						
Contractual services	4,642,616	4,642,616	3,636,300	151,206	3,485,094	1,157,522
Commodities	1,470,925	1,470,925	1,301,127	110,463	1,190,664	280,261
Capital outlays—operations	12,266,648	12,266,648	7,970,657	(540,345)	8,511,002	3,755,646
Total charges to appropriations (outflows)	<u>39,919,982</u>	<u>39,919,982</u>	<u>32,884,941</u>	<u>(182,611)</u> <sup>(2)</sup>	<u>33,067,552</u>	<u>6,852,430</u>
Change in budgetary fund balance	(11,891,880)	(11,891,880)	(845,419)	264,257	(1,109,676)	10,782,204
Budgetary fund balance, end of year:						
Carryover funds	-	-	13,503,363	2,404,006	11,099,357	11,099,357
Capital reserve	19,333,641	19,333,641	19,333,641	-	19,333,641	-
	<u>\$ 19,333,641</u>	<u>19,333,641</u>	<u>32,837,004</u>	<u>2,404,006</u>	<u>30,432,998</u>	<u>11,099,357</u>

See Independent Auditors' Report.

**BUDGETARY COMPARISON SCHEDULE—GENERAL FUND (UNAUDITED),  
CONTINUED**

<i>Years Ended June 30,</i>	<i>2013</i>	<i>2012</i>
Budget-to-actual reconciliation:		
(1) Revenues on a budgetary basis are based on cash received rather than the modified accrual basis used for financial reporting, and the Revolving Fund is not reported as part of the General Fund for budgetary purposes.	\$ (1,077,968)	81,646
(2) Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting. In addition, the Revolving Fund is not reported as part of the General Fund for budgetary purposes. Reserves for future cash flow and improvement needs were included in the budgetary basis, but not in the GAAP basis.	<u>(218,783)</u>	<u>182,611</u>
Total budget-to-actual reconciliation	<u>\$ (1,296,751)</u>	<u>264,257</u>

Note: Under the budgetary basis of accounting, revenues are recognized when they are received rather than when they are earned. Purchases of materials, outside services, and capital outlays are recognized as expenditures when the commitment to purchase is made (encumbered).

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Commissioners  
Metropolitan Library System

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Metropolitan Library System (the "Library") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated October 8, 2013. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information and an explanatory paragraph to emphasize the adoption of Governmental Accounting Standards Board Statement No. 63 by the Library.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Library's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, CONTINUED**

**Internal Control Over Financial Reporting, Continued**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (Finding 2013-01).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Library's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**The Library's Response to the Finding**

The Library's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Library's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Library's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Shawnee, Oklahoma  
October 8, 2013

# METROPOLITAN LIBRARY SYSTEM

## SCHEDULE OF FINDINGS AND RESPONSES

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*June 30, 2013*

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### **Finding 2013-01**

#### **Investments**

##### *Comment*

During the audit, we noted adequate controls were not present surrounding investments. In order to adequately control the investment process, one individual should authorize the purchase/sale, a second individual or party should be the custodian of the securities, and a third individual should record the investment transaction. We noted the Library has one individual responsible for authorizing the purchase/sale of investments and for recording the investment activities. All investments are held by the Bank of Oklahoma; as such, custodial responsibility is assigned to an independent party. We recommend that a different individual be responsible for authorizing investment purchases/sales activities as described above.

##### *Management Response*

We understand and agree with the comment and have begun to have the Executive Director be responsible for authorization of investment purchases and sales.